

## **End-Use Monitoring of Defense Articles and Defense Services Commercial Exports FY 2012**

This report summarizes the Department of State's administration of its "Blue Lantern" end-use monitoring program in FY 2012. The program is operated in accordance with section 40A of the Arms Export Control Act (AECA) (22 U.S.C. 2785), as amended. It monitors the end-use of defense articles, defense services, and brokering activities exported through commercial channels and subject to Department of State licenses or other approvals under section 38 of the AECA and the International Traffic in Arms Regulations (ITAR) (22 C.F.R. Parts 120-130), which implement the AECA. The Blue Lantern program is managed by the Research & Analysis Division (RAD), Office of Defense Trade Controls Compliance (DTCC), Bureau of Political-Military Affairs (PM). The program has been in existence since 1990.

Blue Lantern end-use monitoring entails pre-license, post-license, or post-shipment inquiries or "checks" undertaken to verify the bona fides of proposed foreign consignees and end-users, to confirm the legitimacy of proposed transactions, and to provide "reasonable assurance that –

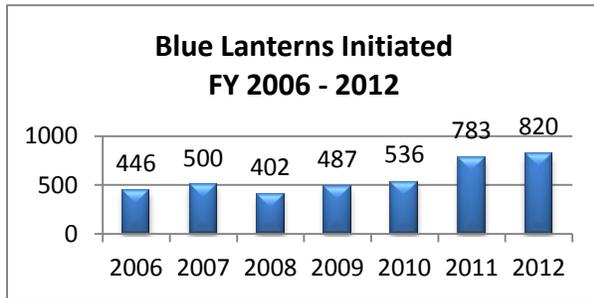
- i) the recipient is complying with the requirements imposed by the U.S. government with respect to use, transfers, and security of defense articles and defense services; and
- ii) such articles and services are being used for the purposes for which they are provided.”<sup>1</sup>

PM/DTCC/RAD's operational budget for FY 2012, in addition to salaries, was approximately \$2.17 million. Six State Department personnel and two contract personnel currently manage the Blue Lantern program in RAD, among other duties. End-use checks are conducted by U.S. embassy personnel in country. RAD staff also travel to different countries (goal of two per quarter) to meet with embassy personnel, host government officials, and local businesses engaged in U.S. defense trade. These visits are designed to educate parties about the Blue Lantern end-use monitoring program, provide guidance, and answer questions. In FY 12, RAD conducted outreach visits to Saudi Arabia, the UAE, Turkey, Italy, South Africa, and Tanzania. All countries, except for the UAE, were first-time destinations for RAD outreach visits.

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<sup>1</sup> See section 40A(a)(2) of the AECA, 22 U.S.C. 2785(a)(2).

### Blue Lantern End-Use Inquiries Initiated in FY 2012

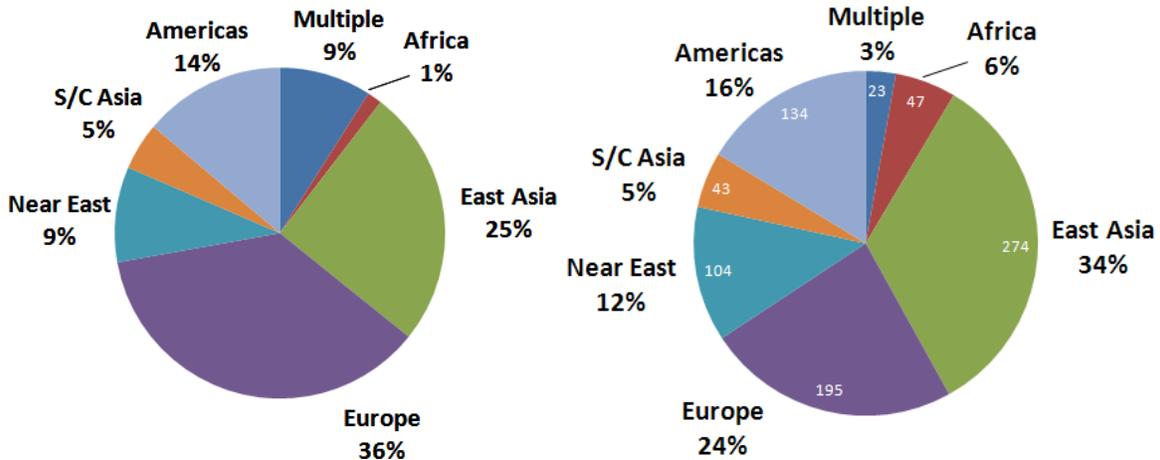


In FY 2012, DTCC/RAD initiated 820 Blue Lantern checks (Figure 1). These checks were conducted in 103 countries. The Department adjudicated over 86,000 license applications and other approval requests. Figures 2 and 3 illustrate the regional distribution of authorization

requests and Blue Lantern inquiries, respectively. For statistical purposes, DTCC/RAD attributes a Blue Lantern check to the region of the end-user listed on the authorization request. Blue Lantern inquiries, however, may be initiated or determined to be “unfavorable” due to foreign intermediaries in third countries.

Figures 2 and 3 illustrate that fewer checks relative to the number of authorization requests are done among the North Atlantic Treaty Organization member countries which have long-established defense trade relationships with the United States. For most of the rest of the world proportionally more checks are conducted. This pattern has been consistent for a number of years.

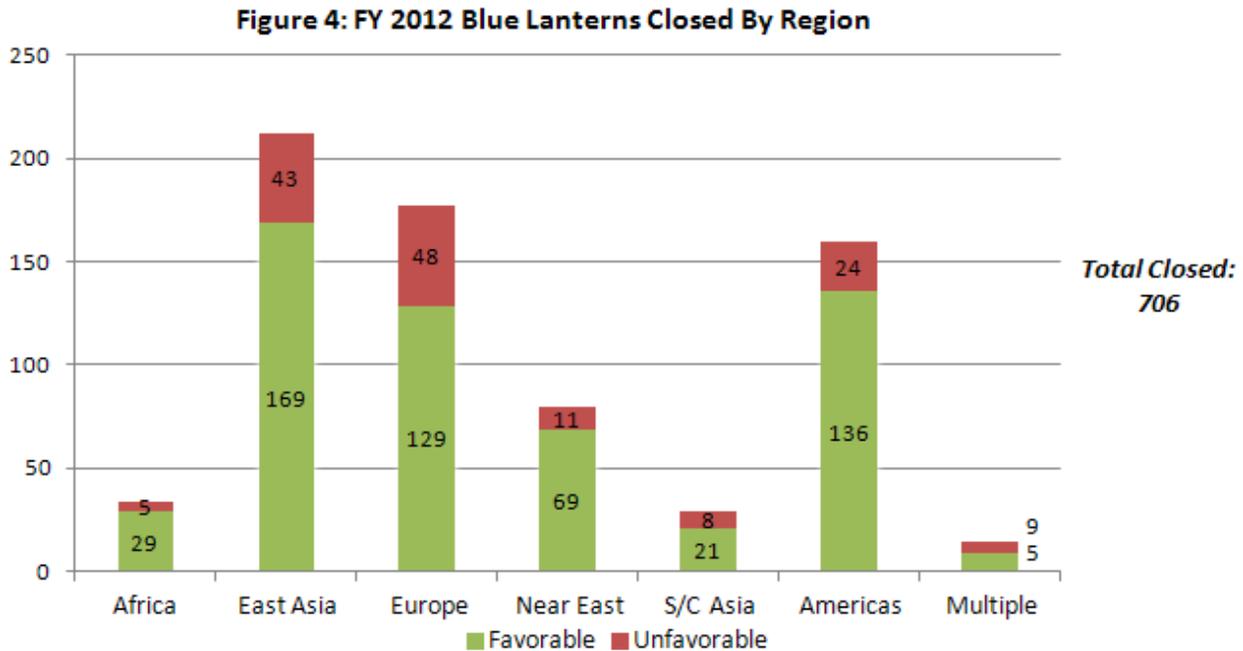
Figure 2: Authorization Requests By Region FY 2012      Figure 3: Blue Lanterns Initiated By Region FY 2012



### Blue Lantern End-Use Inquiries Closed in FY 2012

Figure 4 illustrates the total number of Blue Lantern cases closed, broken down by region. In FY 2012, DTCC closed 706 Blue Lantern cases, over 100 more than the previous fiscal year. Of those cases closed, 144 (20%) were determined to be “unfavorable.” This means the findings of fact were not consistent with the information in the authorization request. Blue Lantern checks are not conducted

randomly; rather, they are selected based on the potential risk of diversion or misuse. Because of this risk-based selection process, transactions targeted for Blue Lantern checks are more likely to result in unfavorable findings.



Unfavorable Blue Lantern cases may result in the rejection, denial, or revocation of a license application, removal of a party, update of the DTCC Watch List, or referral to the office's Enforcement Division (END) for appropriate action. In FY 2012, DTCC denied 13 authorization requests and returned without action 20 as a result of Blue Lantern pre-license checks. DTCC revoked 5 authorizations as a result of Blue Lantern checks conducted after export authorizations were approved. In FY 2012, unfavorable Blue Lanterns referred to END resulted in 9 directed disclosure cases involving potential civil violations of the ITAR. Nine unfavorable Blue Lanterns were referred to law enforcement, of which 6 assisted ongoing criminal investigations, 1 resulted in the re-opening of an investigation, and 1 resulted in a Project Shield America outreach visit to the U.S. exporter.

In FY 2012, Europe and South Central Asia had the highest rate of unfavorable checks, about 27%. Europe typically has the lowest unfavorable rate so it should be noted that this year's findings are primarily due to thirty unfavorable checks involving a single entity that failed to sufficiently cooperate with DTCC's inquiries and also revealed stockpiling concerns. In a reversal from last year, the lowest unfavorable rate was in the Near East, which previously held the highest.

Figure 5 provides a breakdown of unfavorable Blue Lantern checks by region and commodity. In East Asia, most unfavorable Blue Lanterns involved aircraft parts,

and military electronics. In the Americas, firearms/ammo/armor were the primary commodities involved in the unfavorable checks. In Europe, unfavorable checks were spread across a number of commodities, although spacecraft systems stands out due to the previously mentioned series of checks conducted on a single entity.

**Figure 5: FY 2012 Unfavorable Blue Lanterns:  
Commodity Types by Region**

	Africa	Europe	Americas	Near East	S/C Asia	East Asia
Aircraft	2	7	1	3	5	13
Night Vision / Fire Control Systems	1	3	3	3	--	1
Electronics / Communications	--	3	--	--	--	10
Multiple	2	2	--	--	2	1
Explosives, Rockets, Propellants	--	--	1	--	--	3
Firearms, Ammo, and Armor	--	2	16	5	1	6
Spacecraft Systems	--	28	--	--	--	3
Miscellaneous Articles	--	--	2	--	--	--
Naval and Ground Vehicles	--	2	--	--	--	2
Training Equipment	--	1	--	--	--	2

### Analysis of Unfavorable Checks in FY 2012

The reasons for unfavorable Blue Lantern results and the number of instances in which they occurred in FY 2012 are illustrated in Figure 6. Blue Lantern cases can be closed unfavorable for one or more reasons.

The leading cause of an unfavorable result in FY 2012 was ***Derogatory information / foreign party deemed unreliable*** (41 cases). This has been a leading factor in previous years as well, although the number of cases closed unfavorable for this reason decreased since FY 2011, which recorded 76 such cases. This broad category includes criminal records, derogatory information from various sources, and varying concerns regarding a company's *bona fides*. For example, a check on a firearms dealer located in Central America revealed that he sold to questionable clientele, including an individual who was known to resell firearms from his car. A second example involved an Eastern European individual who attempted to acquire a weapon simulator under the premise of using it in a home theatre gaming system. Post was unable to locate the end-user based on the contact information provided in the license application, and the request was denied.

Derogatory information/ foreign party deemed unreliable recipient of USML	40
Unable to confirm order or receipt of goods by end-user	31
Foreign party involved in transaction but not listed on license/ application	28
Refusal to cooperate	49*
Indications of diversion or unauthorized retransfer or re-export	11
Unauthorized stockpiling	34*
Lack of secure storage facilities	3
Inability to confirm existence of a foreign party	1

**Figure 6: Reasons for Unfavorable Results and Number of Instances (FY 2012)**

\*includes 30 checks on single entity

The other leading categories for unfavorable determinations in FY 2012 are generally similar to those seen in previous fiscal years. The number of unfavorable determinations involving unauthorized foreign parties persisted this year with 28 instances (30 in FY 2011). While in some cases this appears to be an administrative oversight, identification of all parties is a critical element in the ability of PM/DDTC to maintain a secure chain of custody from U.S. exporter to foreign end-user. Without transparency regarding all parties to a transaction, there is greater opportunity for diversion to unauthorized end-users and end-uses to occur.

*Indications of diversion or unauthorized retransfer or re-export* were down from 2011, although comparable to results in fiscal years 2010 and 2009. In one pre-license inquiry in the Middle East, the government end-user named on the license request denied having any business with the foreign consignee. In the same inquiry, the foreign consignee admitted its customers were based in a proscribed country. The Blue Lantern inquiry prevented the export of military aircraft parts that were likely being diverted to that proscribed country. This is representative of cases where U.S. exporters enter into transactions with unfamiliar customers and fail to make appropriate due diligence inquiries.

The number of Blue Lanterns closed unfavorable due to *Refusal to cooperate* saw a notable increase, even when the 30 checks into the single entity are excluded. In FY 2012, RAD redoubled efforts to close out inquiries in a timely fashion. If no response was received after repeated efforts to contact foreign parties, these checks were closed unfavorable due to non-cooperation with the Blue Lantern check. Finally, in FY 2012, only one case was closed unfavorable due to the *Inability to confirm existence of a foreign party*. Although twelve checks involved this factor in FY 2011, FY 2012 appears to reflect earlier trends, as it was a rare occurrence in FYs 2010 and 2009.